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FM AMEMBASSY RANGOON
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INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBK/AMEMBASSY BANGKOK 2881
RUEHBJ/AMEMBASSY BEIJING 2250
RUEHBY/AMEMBASSY CANBERRA 1911
RUEHKA/AMEMBASSY DHAKA 5176
RUEHLO/AMEMBASSY LONDON 2110
RUEHNE/AMEMBASSY NEW DELHI 5389
RUEHUL/AMEMBASSY SEOUL 8982
RUEHTC/AMEMBASSY THE HAGUE 0741
RUEHKO/AMEMBASSY TOKYO 6558
RUEHCN/AMCONSUL CHENGDU 1766
RUEHCHI/AMCONSUL CHIANG MAI 2137
RUEHCI/AMCONSUL KOLKATA 0614
RHHMUNA/CDR USPACOM HONOLULU HI
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 2376
RUEHGV/USMISSION GENEVA 4387
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
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C O N F I D E N T I A L SECTION 01 OF 05 RANGOON 000235

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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [PINR](#) [BM](#)
SUBJECT: WHO'S WHO IN BURMA'S OFFSHORE GAS SECTOR

REF: A. RANGOON 57
 1B. 08 RANGOON 609
 1C. 08 RANGOON 011
 1D. 08 RANGOON 871
 1E. 08 RANGOON 741
 1F. RANGOON 132
 1G. IIR 6 812 0078 09

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d).

Summary

1. (C) Burma's offshore waters are becoming more crowded, as foreign companies from China, Korea, Russia, India, Malaysia, and Vietnam secure contracts to explore and develop offshore natural gas blocks. To attract additional investment and capitalize on the recent gas discoveries in the A1, A3, and M9 blocks, the GOB in 2008 opened eighteen new deepwater blocks, most of which are located in disputed territorial waters in the Bay of Bengal. Currently, only two gas projects -- the Yadana field managed by Total and the Yetagun field controlled by Petronas -- produce and export gas, earning the regime more than USD 2 billion in annual revenues. Korean-owned Daewoo, which is developing the A1 and A3 blocks, expects to produce and export gas to China by 2013, while Thailand's PTTEP plans to export gas from the M9 block to Thailand by 2013. When these two projects come online, the regime could earn an additional USD 2 billion in revenues annually. End Summary.

Current State of Gas Production

12. (C) Burma is a resource-rich country; the Ministry of Energy estimates that recoverable reserves of natural gas total 21 trillion cubic feet (tcf). Most of Burma's natural gas production occurs offshore, although several Chinese companies have discovered (but are not developing) gas sources onshore. In 2008, the GOB opened 18 additional deepwater blocks in the Bay of Bengal and Andaman Sea, bringing the total number of blocks to 53. Currently, 11 foreign and 3 Burmese companies have production sharing contracts (PSCs) with state-owned Myanmar Oil and Gas Enterprise (MOGE) for 29 blocks, with the remaining blocks available for investment. According to Total General Manager Nicolas Terraz, because of U.S. and EU sanctions on Burma, western companies cannot invest in Burma, allowing Asian companies to control 90 percent of Burma's offshore blocks.

13. (C) Foreign companies have found significant natural gas reserves in eight offshore blocks. Currently, only two offshore fields -- Yadana in the M5 and M6 blocks, operated by French company Total (with U.S.-based Chevron as one of several partners; although U.S. sanctions prohibit investment in Burma, Chevron/UNOCAL was grandfathered in) and Yetagun in the M12, M13, and M14 blocks, operated by Malaysian-owned Petronas -- produce gas. In 2008, these two projects produced approximately 459 billion cubic feet of gas, exporting approximately 85 percent to Thailand. According to Terraz, the 2008 average price of natural gas sold to Thailand was USD 4.41 per 1000 cubic feet. The regime reports that it earned approximately USD 2.5 billion from

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natural gas exports in 2008, down from USD 2.7 billion in 2007 (Ref A).

Future Production Potential

14. (C) The GOB has lauded two recent discoveries of natural gas in its territorial waters, in Daewoo's Shwe gas fields in A1 and A3 and in PTTEP's M9 block (Ref B). Daewoo officials state that both discoveries should be online by 2013. However, Bob Thomas of Petronas informed us that while production of gas is not a problem for Daewoo, delivery of the gas could prove more challenging. Daewoo signed a contract with the Chinese National Petroleum Company (CNPC) in December 2008 for the sale of Shwe gas, which is to be shipped to Yunnan Province from the Bay of Bengal via a 900-mile pipeline. In April, CNPC signed a Memorandum of Understanding with MOGE for the rights to build two pipelines -- for oil and gas -- and a 50.9 percent stake in the pipeline's operation. Thomas intimated that Shwe gas has already been delayed a year due to negotiations over delivery, and unless CNPC begins pipeline construction within the next six months, delays could extend another year. CNPC estimates the total cost of both pipelines at USD 2.5 billion, although Myanmar Petroleum Resources Ltd. (MPRL) owner U Moe Myint predicts that CNPC's total cost could top USD 5 billion.

15. (C) In 2008, PTTEP, which reports it has between 1.8 and 2.5 tcf in certified reserves in its M9 block, signed an agreement to sell 240 million cubic feet of gas a day to the Government of Thailand (Ref B). According to Total's Terraz, PTTEP did not find one large field, but rather many small fields that it can tap for production. While PTTEP may have enough reserves to make production commercially viable, it will likely defer production for at least one year due to the decline in the world price of natural gas and investment limitations caused by the world financial crisis. Although PTTEP planned to start building the 67 kilometer pipeline to Thailand in 2008, it has yet to begin construction. Petronas' Thomas surmised that production and delivery of M9 gas would not occur before 2014.

Identifying the Players

16. (C) Currently, 14 local and foreign companies are investing in Burma's offshore natural gas fields, albeit at different levels. Total, Petronas, Daewoo, PTTEP, MPRL, and Chinese National Offshore Oil Company (CNOOC) are actively either producing or exploring their respective blocks; the other companies are doing little with their blocks. MPRL Owner U Moe Myint opined that CNPC and Indian companies Essar and Oil and Natural Gas Corporation Videsh Ltd. (ONGC) secured their blocks, which are located adjacent to the Shwe gas fields, only after Daewoo found large gas reserves. Many within the oil and gas industry believe that because of the financial crisis, those companies may choose to relinquish rights to the blocks for a relatively small fee (up to USD 5 million, depending on the contract) rather than conduct expensive seismic testing and drilling exploratory wells, which can cost more than USD 25 million each.

17. (C) The following is a snapshot of oil and gas

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companies' operations in Burma's offshore blocks:

-- CNPC: This Chinese company has production sharing contracts (PSCs) for deep sea blocks AD1, AD6, and AD8. According to Total officials, CNPC is conducting two and three dimensional (2D and 3D) seismic testing on these blocks, but has not made any discoveries. CNPC President Lei Zhenyu told us that the company will make a decision about exploration after interpreting the seismic results. Although CNPC has rights to deep water blocks, Lei explained that his company has limited experience in deep sea drilling.

-- CNOOC: In 2004, this Chinese company, partnering with Steven Law's Golden Aaron Pte (both Law and his company are listed on the U.S. targeted sanctions list) acquired a contract for the M2, M10, and A4 blocks. According to CNOOC President Li Mingde, the company relinquished the M2 block in 2008 due to inactivity. While CNOOC has yet to drill any wells or conduct seismic studies of A4, it has spent more than USD 50 million to drill two exploratory wells in M10. Li told us that CNOOC will spend more than USD 100 million to drill four additional wells in M10 in 2009/2010. CNOOC currently has no plans to conduct 3D seismic studies in either block.

-- Danford Equities: Australian-owned Danford signed a PSC for the Yetagun East block in the Andaman Sea in early 2008 (Ref C). According to Petronas' Bob Thomas, Danford is conducting 2D studies, which show potential reserves. Danford General Manager Chris Drew has stated publicly his company's plans to invest up to USD 40 million in seismic testing and exploration through 2010.

-- Daewoo: This Korean company, partnering with MOGE and Indian companies Gail and ONGC, has PSCs for A1, A3, and AD7. In 2004, Daewoo discovered 4.5 tcf of proven reserves in the Shwe gas fields. The company continues to do 2D and 3D seismic studies in AD7, but was forced to stop exploratory drilling in late 2008 because it allegedly was drilling in Bangladeshi territorial waters (Ref D). To date, Daewoo has spent more than USD 600 million to develop the fields - more than the company planned to spend, Petronas' Bob Thomas told us. According to Daewoo official Andrew Hay, Daewoo agreed to sell the gas to China for \$4.279/million British Thermal Units (BTU), although the gas price may change every three months based on the world gas prices. The company expects to earn profits of USD 25 billion over 25 years from the Shwe gas fields. Because the sale of Shwe gas has been delayed nearly two years and Daewoo continues to spend money on the project, MPRL owner U Moe Myint predicts that Daewoo might be forced to sell its shares in the Shwe gas fields to CNPC in the next five years due to financial concerns.

-- Essar: This Indian company has the rights to A2, as well as several onshore blocks. According to industry sources, Essar has yet to conduct offshore exploration.

-- Ngwe: This Burmese company, partnering with Russian-owned Zarubezhneft, controls the M8 block in the Andaman Sea. In March/April 2008, Ngwe conducted limited 2D seismic studies, but has yet to drill any exploratory wells.

-- MPRL: This Burmese company is actively exploring its A6 block in the Rakhine Basin. MPRL General Manager Terry Howe

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told us that MPRL has conducted 2D seismic studies of the shallow part of A6, which shows high potential for reserves. MPRL will invest up to USD 60 million over the next two years to conduct deep water 2D studies in the rest of the block. MPRL is currently bidding on the A5 block.

-- Petronas: Malaysian-owned Petronas, partnering with Japanese company Nippon, plus PTTEP and MOGE, began producing and exporting gas from the Yetagun gas fields in M12, M13, and M14 to Thailand in 2000. Approximately 15 percent of gas produced is sold to MOGE. Petronas and its partners have spent more than USD 800 million to develop the Yetagun project.

-- Petrovietnam: A new investor in Burma, Vietnamese company Petrovietnam, partnering with U Chit Khaing of Eden Group, signed a PSC in October 2008 for the M2 block off the Irrawaddy Delta. According to MOGE investment records, Petrovietnam spent USD 20 million in 2008, although the company has yet to conduct seismic testing or exploratory drilling.

-- PTTEP: Thai company PTTEP currently has PSCs with MOGE for five blocks - M3, M4, M7, M9, and M11 (Ref B). In 2008, PTTEP planned to swap the M3 and M4 blocks with CNOOC for A4 and C1 (onshore), but MOGE refused to approve the deal. We cannot confirm why. PTTEP has conducted 2D seismic in all blocks and spent USD 50 million on two exploratory wells in M3 and M7, which came up dry. PTTEP expects to spend approximately USD 1 billion to explore and develop the M9 block over the next four years.

-- ONGC: This Indian company controls AD2, AD3 and AD9, located south of the Shwe gas fields in the Bay of Bengal. According to Total GM Terraz, ONGC is conducting 2D seismic studies in all three blocks, spending approximately USD 2.4 million.

-- Rimbunan Petrogas/IGE: Malaysian-owned Rimbunan Petrogas and Burmese-owned IGE signed two 30-year PSCs with MOGE for the M1 and A5 blocks in March 2007 (Ref E). In 2008, they relinquished control over the A5 blocks. Rimbunan Petrogas is currently conducting 2D seismic testing in the M1 block, but has yet to drill an exploratory well.

-- Silverwave: This Burmese company, which is owned by regime crony Tay Za, recently signed a contract for the A7 block and one onshore oil block. Silverwave General Manager Minn Minn Oung told us his company, which is bidding for the A5 block, has yet to conduct any exploration in the block, due to financial limitations (Ref G).

-- Total: This French company, partnering with U.S. company Chevron (Unocal), PTTEP, and MOGE, has produced and exported gas from the Yadana gas fields in M5 and M6 since 1998. Total and its partners have spent more than USD 1.2 billion developing the Yadana fields. According to Nicolas Terraz, Yadana provides MOGE with 110 million cubic feet of gas a day, approximately 50 percent of Burma's gas consumption, and has built 7 platforms and 16 wells. Eighty percent of gas produced is sold to Thailand, with the remainder going to MOGE.

18. (C) The regime earns substantial revenues from natural gas development and sales. In addition to contractual earnings on export profits, which average USD 2.5 billion annually, MOGE procures 20 percent of the daily natural gas production from Yadana and Yetagun for below market prices and resells the gas on the domestic market at a higher price. According to U.S. Department of Commerce Senior Energy Advisor Paul Hueper, MOGE also earns a signing bonus of up to USD 7.5 million for each PSC. Additionally, should a company relinquish its contract without meeting the exploration standards, it must pay MOGE an average of USD 5 million in penalties, U Moe Myint explained. MOGE also earns hundreds of millions annually in taxes and fees for the Yadana and Yetagun pipelines, and is set to earn substantially more once the gas from M9 and the Shwe fields is exported to Thailand and China.

19. (C) Burma's oil and gas sector is one of the few that receives annual foreign direct investment. According to local consulting firm Business Investment Group (BIG), foreign companies invested USD 114 million in 2008, USD 474 million in 2007, and USD 187 million in 2006. BIG officials informed us that the GOB expects oil and gas investment to increase in 2009, as MOGE plans to announce a winner for the A5 block later this year and companies including Daewoo, MRPL, and CNPC continue to explore their blocks.

Comment

110. (C) Although Burma likely has substantial undiscovered reserves off its coast, most current investors lack the technical understanding, experience, and financial wherewithal to tap these resources. Some of the more serious investors such as MPRL recognize that drilling along Burma's coast, particularly in deep water, will cost several hundred million dollars. We heard from several companies, including Petronas, CNPC, Daewoo, and CNOOC, that the world financial crisis is affecting their ability to sustain costly investments in exploration, let alone to allow them to invest in new offshore blocks. We suspect that many companies, particularly those which have blocks adjacent to the Shwe gas fields, will relinquish their blocks during the next two years rather than spend tens of millions in exploration costs. The Chinese are a potential bidder for these blocks. Silverwave and MPRL have also indicated a desire to expand their offshore operations. We expect that the longer it takes for the Shwe gas project to come online, the more likely Daewoo, which is burning through cash, will sell out, perhaps to the Chinese, who have the resources to buy.

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